

April 4, 2022 02:13 AM GMT

NagaCorp | Asia Pacific

1Q22 EBITDA Beats; More Visible Recovery from 2Q22

Stock Rating
Overweight

Industry View
In-Line

Price Target
HK\$8.50

1Q EBITDA beat was positive and we see upside risk to earnings if the recovery becomes more pronounced from 2Q22.

1Q22 EBITDA was +83%QoQ to US\$61m (50% of 1Q19). Margin increased to >50% from the normal 38% level due to a faster recovery in Mass & Slot revenue (+36%QoQ, 74% of 1Q19). We estimate FCFE (excl. Development Capex) was US\$45m (33% of 2019).

- **EBITDA beats MSe and Consensus:** 1Q22 x 2 EBITDA of US\$120m was better than consensus 1H22 EBITDA of US\$107m. Business recovery could be more pronounced from 2Q22, as more ASEAN countries (e.g. Malaysia, Singapore) opened their borders from April.
- **Annualized 1Q22 Mass & Slot revenue** was US\$307m. This is already 92% of MS 2022e at US\$334m.
- **Further opex reduction:** -14%QoQ to US\$280K per day (70% of 2019 level). Yet, this could pick up as business volume recovers more.
- **Premium Mass revenue** (more similar to Direct VIP in Macau) was 160% of 2019. It is now 20% of total Net Gaming Revenue vs. only 4% in 2019. Gross profit margin is 61%.
- **Referral VIP** remained muted at 1% of 2019 level but could be better in 2Q22 as travel reopening intensifies.
- **Net debt** decreased 14%QoQ to US\$360m. Cash was up US\$60m QoQ to US\$163m. This suggests Naga likely did not spend much on Phase 3 in 1Q. Cash could also be helped by working capital changes (e.g. current liabilities). Planned capex for 2022 is US\$100m.
- **Valuation:** The stock trades at 9x EV/EBITDA and 11% FCFE yield on our 2023e, which is reasonable, in our view, considering its recovery prospects in the near term.
- **Others:** This is the first time Naga reported quarterly EBITDA.

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NagaCorp (3918.HK, 3918 HK)

ASEAN Gaming / Hong Kong

Stock Rating	Overweight
Industry View	In-Line
Price target	HK\$8.50
Shr price, close (Apr 1, 2022)	HK\$7.07
52-Week Range	HK\$9.60-5.15
Up/downside to price target (%)	20
Sh out, dil, curr (mn)	4,341
Mkt cap, curr (mn)	US\$3,918
Avg daily trading value (mn)	HK\$23

Fiscal Year Ending	12/21	12/22e	12/23e	12/24e
ModelWare EPS (US\$)	(0.03)	0.04	0.08	0.11
Prior ModelWare EPS (US\$)	-	-	-	-
EPS (US\$)§	(0.01)	0.03	0.08	0.09
Revenue, net (US\$ mn)	226	864	1,464	1,688
EBITDA (US\$ mn)	10	300	489	617
ModelWare net inc (US\$ mn)	(147)	153	337	478
Curr P/E, for consensus	NM	25.6	11.6	8.2
P/BV	2.3	2.0	1.7	1.4
RNOA (%)	(4.7)	6.6	12.1	14.5
ROE (%)	(8.9)	9.3	17.2	20.2
EV/EBITDA**	427.8	14.6	8.8	6.9
Div yld (%)	0.0	2.3	5.2	7.3

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework

§ = Consensus data is provided by Refinitiv Estimates

** = Based on consensus methodology

e = Morgan Stanley Research estimates

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1Q22 Results Summary

Exhibit 1: Naga Quarterly Gaming Revenues and EBITDA - MSE vs. Actuals

US\$ mn	1Q19	1Q20	4Q21	1Q22A	QoQ%	1Q22E	A vs. E
Gaming operations							
GGR	320	368	86	110	28%	95	16%
- % to 2019			20%	30%		26%	
VIP revenue	217	270	30	33	12%	35	(5%)
- % to 2019		125%	10%	12%		13%	(5%)
VIP roll	8,187	9,693	807	856	6%	1,291	(34%)
- % to 2019		118%	6%	10%		16%	(34%)
Mass revenue	69	68	35	52	48%	38	34%
- % to 2019		99%	41%	76%		57%	34%
EGM revenue	35	30	22	25	17%	22	15%
- % to 2019		85%	53%	85%		74%	15%
Costs							
Opex per day (excl. Chen bonus)	(0.37)	(0.36)	(0.33)	(0.28)	(17%)	(0.39)	(29%)
VIP Rebates	(145)	(136)	(9)	(13)	42%	(16.14)	(20%)
EBITDA							
EBITDA (excl. one-off)	122	136	33	61	83%	32	88%
EBITDA Margin (Gross)	38.0%	36.4%	37.8%	54.4%		33.4%	63%

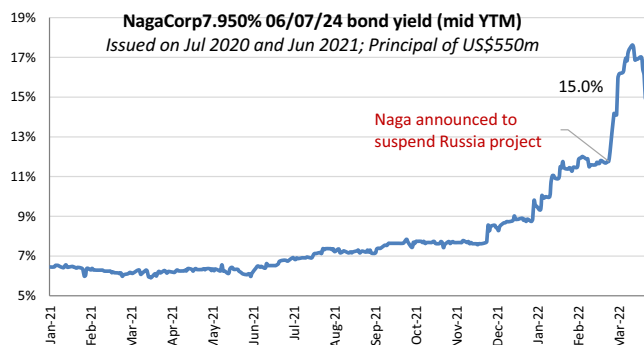
Source: Company data, Morgan Stanley Research estimates

Exhibit 2: Naga Avg. Daily Gaming Revenues by segments: Faster-than-expected recovery in Mass & Slot segment

Average Daily Net Gaming Revenue (in US'000)	1Q19	4Q21	1Q22A	QoQ%	% to 2019
Total Net Gaming Revenue	3,556	808	1,078	33%	30%
Mass Table	763	375	573	53%	75%
EGM	387	243	280	15%	72%
Premium Mass	132	182	212	16%	160%
Referral VIP	2,274	8	13	63%	1%

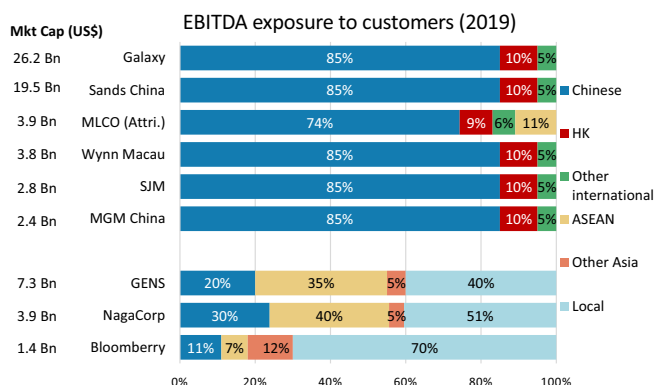
Source: Company data, Morgan Stanley Research

Exhibit 3: Naga Bond Yield Improved



Source: Refinitiv as of Apr 1, 2022, Morgan Stanley Research

Exhibit 4: Asia Gaming Operators' 2019 EBITDA Exposure to different customer nationalities



Source: Refinitiv as of Apr 1, 2022, Morgan Stanley Research

Valuation Methodology and Risks

NagaCorp (3918.HK)

HK\$8.5: base case scenario value. We apply a target FCFE yield of 8.0% to our 2023 estimate with a 10% discount for time value. The target yield is higher than Macau peers' average of 7.0%, but lower than the company's historical average of 12% since 2018 in view of the company's monopoly status in a fast-growing market, and attractive margin and tax profile.

Risks to Upside

- Faster-than-expected ASEAN travel reopening
- Continued growth in domestic demand observed in 2H20 and 2M21
- Deeper-than-expected Direct VIP demand, leading to smaller/no cannibalization between Direct VIP and local junket VIP
- Flexibility in Naga3 budget in response to changing market demand

Risks to Downside

- Travel disruption affects reopening in ASEAN and Cambodia
- Severe regional competition for ASEAN customers

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(as of March 31, 2022)

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	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MSC
Overweight/Buy	1438	41%	366	45%	25%	630	41%
Equal-weight/Hold	1539	44%	365	45%	24%	712	46%
Not-Rated/Hold	0	0%	0	0%	0%	0	0%
Underweight/Sell	552	16%	87	11%	16%	207	13%
TOTAL	3,529		818			1549	

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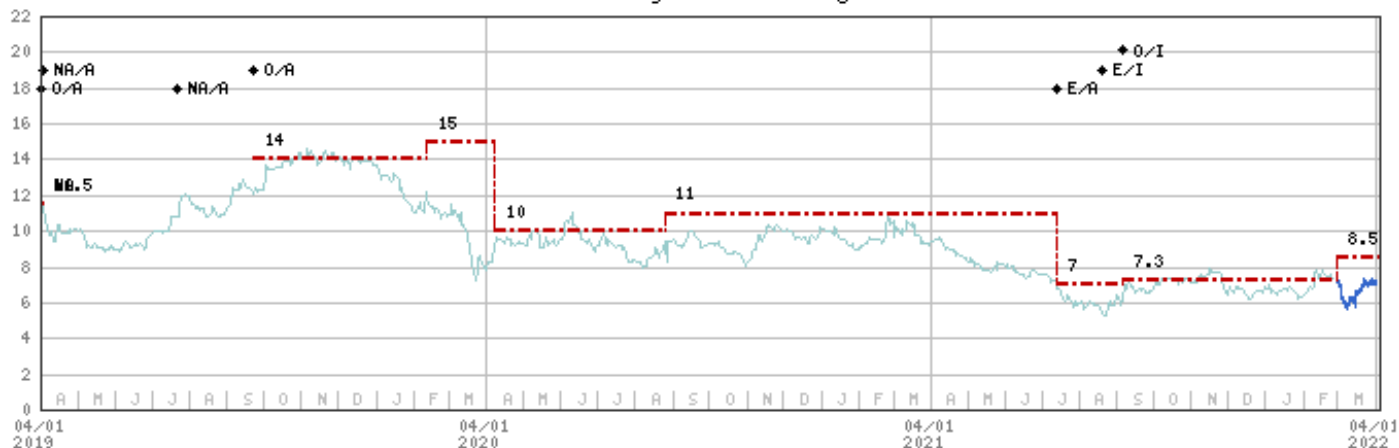
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NagaCorp (3918.HK) - As of 4/3/22 in HKD
Industry : ASEAN Gaming



Stock Rating History: 4/1/17 : NA/I; 6/18/17 : NA/A; 3/6/18 : O/A; 4/4/18 : E/A; 7/25/18 : O/A; 4/3/19 : NA/A; 7/21/19 : NA/A; 9/23/19 : O/A; 7/13/21 : E/A; 8/19/21 : E/I; 9/6/21 : O/I

Price Target History: 2/3/16 : NA; 3/6/18 : 8.2; 4/4/18 : 8.5; 5/21/18 : 8.1; 7/25/18 : 9.5; 2/14/19 : 11.5; 4/3/19 : NA; 9/23/19 : 14; 2/12/20 : 15; 4/7/20 : 10; 8/25/20 : 11; 7/13/21 : 7; 9/6/21 : 7.3; 2/28/22 : 8.5

Source: Morgan Stanley Research Date Format: MM/DD/YY Price Target --- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) ■
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INDUSTRY COVERAGE: ASEAN Gaming

COMPANY (TICKER)	RATING (AS OF)	PRICE* (04/01/2022)
Gareth Leung, CFA		
NagaCorp (3918.HK)	O (09/06/2021)	HK\$7.07
Praveen K Choudhary		
Bloomberry Resorts Corporation (BLOOMP.S)	O (03/26/2018)	PP6.50
Genting Singapore PLC (GENS.SI)	E (02/23/2022)	S\$0.82

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* Historical prices are not split adjusted.